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Mexico

Citrus

Low Orange Production Forecast for MY 1998 1999

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Report Highlights:

Although the Mexican orange production forecast for MY 1998 has been revised upward to approximately 2.95 million MT, dry weather is expected to keep the final figure to less than MY 1997's.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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SECTION I. SITUATION AND OUTLOOK

Economic Outlook: Mexico's consumer boom during the first 10 months of 1998 has slacked-off considerably since November as higher interest rates, a weakening currency and a domestic fuel price increase reduced the population's disposable income. Many private analysts believe that real GDP growth is slowing and will likely be less than 2.5 percent in 1999 against 4.8 percent last year. The reasons for this are tighter monetary policy in response to external pressures and low oil prices, forcing a continuation of fiscal restraint.

The volatility of international financial markets has dampened the Mexican economy. Interest rates increased and the peso weakened after Russia defaulted on some of its debt in August 1998, causing a reduction in consumer confidence and the amount of disposable income. Mexican government budget cuts of more than US\$3.3 billion last year also reduced demand in the economy. Last year's reduced oil revenues forced three budget cuts, and the 1999 budget's oil revenues were revised downward to US\$9.25 per barrel from US\$11.50.

Mexico's 1999 budget includes 1 percent monthly increases in gasoline prices. These will amount to a yearly increase of 12.7 percent for calendar year 1999. If, however, November 1998's 15 percent increase is included, gasoline prices will have increased 29.6 percent for the 13½ months period (November 1998 - December 1999). This, along with the elimination of subsidies to corn tortillas, will make the Mexican government's goal of 13 percent inflation for 1999 a major challenge.

It is expected that the economic lessons Mexico learned during the crisis of 1994, and improved fiscal and monetary policies, will help Mexico minimize the impact, without too much suffering, from the financial troubles that have affected Brazil since the beginning of 1999. In fact, in March and April the overall economic conditions have stabilized, with the peso gaining value against the US\$ and brought on in part by increasing oil prices. Despite its relatively strong position, Mexico has some cause to worry because of its dependence on oil at a time when still remain low relative to their historic inflation adjusted prices. This will more than likely result in Mexico seeing only modest economic growth this year. Retail sales, for example, are expected to slow during 1999 as tighter monetary and fiscal policies reduce the amount of cash available in the economy. Consumer confidence is also slipping due to economic uncertainties and the recent turmoil in the Asian and Brazilian financial markets.

In turning to the outlook for citrus in particular, orange production for MY 1998 is forecast to be lower compared to MY 1997 production because of dry weather that prevailed during the production cycle. Thus, prices for fresh oranges increased as well as oranges destined for processing. The low orange production forecast forced the industry to begin processing earlier to try to beat fresh orange prices. The availability of fruit, however, did not last long and the processors had to end their season earlier than expected. Thus, frozen concentrate orange juice (FCOJ) production for MY 1999 is forecast to be lower compared to MY 1998 production. Consequently, FCOJ exports also will be down.

SECTION II. STATISTICAL TABLES

FRESH ORANGE PRODUCTION TABLE

(Hectares) (1000 Trees) (1000 MT)

PSD Table						
Country:	Mexico					
Commodity:	Oranges					
		1996		1997		1998
	Old	New	Old	New	Old	New
Market Year Begin		11/1996		11/1997		11/1998
Area Planted	316000	316000	323000	317000	325000	321000
Area Harvested	307000	307000	314000	310000	315000	300000
Bearing Trees	62100	62100	63430	62620	63630	60600
Non-Bearing Trees	1820	1820	1820	1818	2020	4245
TOTAL No. Of Trees	63920	63920	65250	64438	65650	64845
Production	3917	3917	3900	3920	2500	2950
Imports	14	14	15	20	15	20
TOTAL SUPPLY	3931	3931	3915	3940	2515	2970
Exports	11	11	9	9	9	9
Fresh Dom. Consumption	3470	3470	3256	3261	2116	2571
Processing	450	450	650	670	390	390
TOTAL DISTRIBUTION	3931	3931	3915	3940	2515	2970

FROZEN CONCENTRATE ORANGE JUICE TABLE

(MT)

PSD Table						
Country:	Mexico					
Commodity:	Orange Juice	65 Brix				
		1997		1998		1999
	Old	New	Old	New	Old	New
Market Year Begin		01/1997		01/1998		01/1999
Deliv. To Processors	450000	450000	650000	670000	300000	390000
Beginning Stocks	3000	3000	3000	3000	3000	3000
Production	45000	45000	65000	67000	33000	38000
Imports	1	1	1	1	1	1
TOTAL SUPPLY	48501	48501	68001	70001	36001	41001
Exports	42300	42300	62000	63509	30000	35000
Domestic Consumption	3201	3201	3001	3492	3001	3001
Ending Stocks	3000	3000	3000	3000	3000	3000
Total Distribution	48501	48501	68001	70001	36001	41001

TRADE MATRIXES

ORANGES		UNITS: <i>Metric Tons</i>	
EXPORTS FOR 1998 TO:		IMPORTS FOR 1998 FROM:	
U.S.	7,594	U.S.	20,258
OTHER		OTHER	0
ARGENTINA	1,179		
TOTAL OF OTHER	1,179	TOTAL OF OTHER	0
OTHERS NOT LISTED	148	OTHERS NOT LISTED	0
GRAND TOTAL	8,921	GRAND TOTAL	20,258

FROZEN CONCENTRATE ORANGE JUICE H.T.S. 200911		UNITS: <i>Kilograms* & Liters**</i>	
EXPORTS FOR 1998 TO:		IMPORTS FOR 1998 FROM:	
U.S.	37,568,309*	U.S.	333,114**
OTHER		OTHER	
<i>France</i>	4,955,600*	<i>Brazil</i>	487**
TOTAL OF OTHER	4,955,600*	TOTAL OF OTHER	487**
OTHERS NOT LISTED	17,394,777*	OTHERS NOT LISTED	0
GRAND TOTAL	59,918,686*	GRAND TOTAL	333,601**

SOURCE: Global Trade Information Services, Inc.

Note: 333.601 KL divided by 5,321.8 = 0.062 MT single strenght juice

ORANGE JUICE NOT FROZEN H.T.S. 20091901		UNITS: Kilograms* & Liters**	
EXPORTS FOR 1998 TO:		IMPORTS FOR 1998 FROM:	
U.S.	17,442,409*	U.S.	1,499,736**
OTHER		OTHER	
Brazil	517,017*		
TOTAL OF OTHER	517,017*	TOTAL OF OTHER	
OTHERS NOT LISTED	1,809,140*	OTHERS NOT LISTED	643**
GRAND TOTAL	19,768,566*	GRAND TOTAL	1,500,379**

SOURCE: Global Trade Information Services, Inc.

Note 1:

19,1768.566 MT of 11.8 Brix degrees Multiplied by 0.1816 of 65 Brix degrees = 3,590 MT of FCOJ at 65 Brix

Note 2:

1,500.379 KL divided by 1,643 = 0.913 MT of single strenght juice

ORANGE PRICES

WHOLESALE ORANGE PRICES			
Month	1998	1999	Change %
January	0.94	1.37	45.7
February	0.90	1.15	27.8 *
March	0.95	1.35	42.1 *
April	1.03	N/A	N/A
May	1.41		
June	2.74		
July	2.48		
August	2.97		
September	2.75		
October	1.90		
November	1.55		
December	1.45		
* Variety: "Late" Small Size (Tardía chica)			

SOURCE: SERVICIO NACIONAL DE INFORMACION DE MERCADOS

EXCHANGE RATE FOR (NOVEMBER 1998) USD\$1.00 = 10.10

EXCHANGE RATE (APRIL 1999) US\$1.00 = \$ 9.40 PESOS

SECTION III. NARRATIVE ON SUPPLY & DEMAND, POLICY & MARKETING

FRESH ORANGES

PRODUCTION

The fresh orange production forecast for marketing year 1998/99 (November-October) has been revised upward to 2.95 million metric tons (MMT). Although its higher than the previous estimate, its still less than that of MY 1997 production. The present lower production situation is due to the dry weather that prevailed during 1998. The first and most important valencia orange crop was harvested from November through March. Second and third blooms are harvested from May to August. According to producers, production for the second bloom, however, is expected to be slightly more than usual due to timely rains during April in some of the production areas in Veracruz. Fruit from second and third blooms are not as sweet as that from the first crop and are not suitable for the processing. Area planted and harvested for MY 1998 have been revised downward according to recent information. Countrywide, orange yields for MY 1998 are expected to be at 9.8 MT/Ha. Orange production estimates for MY 1997 were revised upward and area planted and harvested were revised downward based on most recent official information.

Lower supplies of oranges resulted in higher producer prices for MY 1998. Valencia farm gate prices in October 1998 were approximately \$600 pesos/MT (US\$59.40/MT) and kept increasing to \$1,500 - \$1,800 pesos/MT (US\$159.60 - \$191.50/MT) by March/April 1999.

Wholesale orange prices consequently, also have been higher for MY 1998 compared to MY 1997. During November 1998, medium valencia orange prices were 52 percent higher compared to November 1997 prices. February 1999 prices were 42 percent higher compared to the same month in 1998. The supply of Valencias was exhausted earlier this year (February) than normal (April). Buyers filled the gap with late orange varieties in much smaller sizes. Most of the oranges in the fresh market are destined for domestic fresh squeezed juice. Retail prices for fresh oranges at supermarkets were approximately \$2.90 pesos/Kg (US\$0.31/Kg) in January; \$3.50 pesos/Kg (US\$0.37/Kg) in February; and \$4.00 pesos/Kg (US\$0.43/Kg) in March.

CONSUMPTION

The fresh orange consumption forecast for MY 1998 was revised upward based on recent data, but still reflecting a lower supply of oranges compared to MY 1997. Consumption estimates for MY 1997 were revised upward based on most recent official information. Over 99 percent of the total demand for citrus fruits in Mexico is covered by domestic production with imports accounting for less than 1 percent of the market.

TRADE

Orange imports by Mexico have been slowly growing as more areas from the U.S. are allowed to export to Mexico. Thus, the import forecast for MY 1998 was raised to approximately 20,000 MT. Likewise, the estimate for fresh orange imports for MY 1997 was revised upward reflecting the most recent official data. U.S. oranges to Mexico could expand given the zero NAFTA tariff rate and the possibilities of California, Texas and Arizona to ship to Mexico. Mexican orange exports are estimated to remain static as forecast for MY 1998. The United States will continue to be the largest export market for Mexican oranges. Most of the oranges

exported are from Sonora.

MARKETING

There are three major wholesale markets or *Centrales de Abastos* in the country through which 80 percent of the total citrus fruits is sold. Mexico City's Central Market handles 40 percent of the sales. The two other largest markets are located in Guadalajara and Monterrey. Mexico's distribution system is unique in its mix between traditional distribution methods (central market purchasing and delivery) and more sophisticated methods (large regional and national distributors).

Distributors/importers are the key to the success of any imported product since only some of the major retail and few of the major food service chains import directly. For any U.S. company entering Mexico, it is important to have someone, an agent or reliable distributor, who can maintain regular contact with buyers, interface with the government and handle the required paperwork, and ensure that service is maintained.

For fresh and horticultural products, including citrus fruits, each city has a central wholesale market known as the *Central de Abastos*. Virtually all of Mexico's horticultural and fruit production and imports move through these markets. The products are sold by box. Typical buyers in this area are large supermarket chains, street markets, hotels and restaurants.

U.S. citrus fruit exporters should be aware of the fact that the Mexican market is more price sensitive than quality sensitive. This is one of the main reasons for limited exports of U.S. citrus products. Despite the excellent quality, prices are 4 to 5 times higher than Mexican products. Some attempts have been made by U.S. firms to enter the market, but they have had limited success because of strategies emphasizing quality rather than price.

FROZEN CONCENTRATE ORANGE JUICE (FCOJ)

PRODUCTION

Frozen concentrate orange juice (FCOJ) production forecast for MY 1999 (January/December) was revised upward as well as oranges delivered to processors based on recent industry information. FCOJ production, however, will still be lower compared to production in MY 1998 due to lower supplies of fruit. Also, juice production depends heavily on the international price of FCOJ. Despite that the international price of FCOJ was favorable at the beginning of the season last November 1998, FCOJ prices went down by January/February 1999, allowing a shorter margin for the industry to buy fruit. The estimates for FCOJ production for MY 1998 were revised upward as well as oranges delivered to processors based on recent information. According to the industry, FCOJ production for 1998 was good because of the low prices of fresh fruit at the domestic market and fair prices in the international market for FCOJ. The prices for FCOJ futures contracts for 1999 deliveries began at approximately US\$1.10-1.20/lb, but they declined by February 1999 and are currently at US\$0.82-0.84/lb.

The low orange supplies forecast for MY 1998 urged the industry to begin working in November, a month earlier than usual to try to beat domestic orange prices buying early in the season. The industry also ended up by

March, partly because they ran out of Valencias which have the characteristics necessary to produce FCOJ. Prices for oranges destined to the processing industry were approximately \$500 pesos/MT (US\$53.20/MT) F.O.B. plant by November 1998, however, by the end of the season plants were paying an average of \$650 to \$840 pesos/MT.

CONSUMPTION

Industry sources estimate that FCOJ consumption increased slightly during MY 1998 because of an improved consumer purchasing power early in the year. But, for MY 1999 FCOJ consumption will remain as forecast because of shorter supplies. Besides, the majority of Mexican consumers prefer and demand fresh squeezed juice instead of processed orange juice.

TRADE

Exports estimates of FCOJ for MY 1999 were revised upward to approximately 35,000 MT from previous estimates. According to industry sources, Mexico will fill 100 percent of the 1999 U.S. quota with approximately 33,000 MT. The export estimates for MY 1998 were also revised upward based on recent official trade data.